

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 SS-20 NSC-07 STR-08 AGR-20 L-03 OIC-04 DRC-01

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P 031636Z MAY 74

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E.O.11652: N/A

TAGS: ECON, EFIN, ENRG, ETRD, OECD

SUBJECT: OECD MINISTERIAL: INFLATION AND EMPLOYMENT,
INTERNATIONAL TRADE, ETC.

REFS: (A) STATE 087530

(B) USOECD 10070

(C) TOKYO 5261

(D) OECD DOCUMENT C(74)80

1. SUMMARY: HEADS OF DELEGATIONS MET ON APRIL 30 TO
CONSIDER MINISTERIAL DOCUMENT ON INFLATION AND EMPLOY-
MENT, INTERNATIONAL TRADE, INVESTMENT AND MONETARY
QUESTIONS (REF D). DOCUMENT GENERALLY WELL RECEIVED
ALTHOUGH SOME FELT MINISTER'S ATTENTION SHOULD BE FOCUSED
ON FEWER SPECIFIC POLICY ISSUES. OTHERS FELT MINISTERS
HAD RESPONSIBILITY FOR OUTLINING COMPREHENSIVE STRATEGY
FOR DEALING WITH WIDE RANGE OF CURRENT ECONOMIC PROBLEMS,
EVEN IF OTHER ORGANIZATIONS MIGHT BE MORE CONCERNED WITH
SPECIFIC POLICY IMPLEMENTATION. SECRETARIAT UNSURE
WHETHER DOCUMENT COULD OR SHOULD BE SHORTENED, AND WILL
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REACT TO THIS AND OTHER SUGGESTIONS AT COUNCIL MEETING

THIS SUBJECT ON MAY 14. ITALIAN AND CANADIAN DELS REITERATED POSITIONS TAKEN AT XCSS MEETING APRIL 23-24 ON QUESTIONS OF DEFICIT FINANCING AND EXPORT RESTRICTIONS IN CURRENT ACCOUNT STANDSTILL DECLARATION (REF B). END SUMMARY.

2. SECGEN INTRODUCED DISCUSSION OF MINISTERIAL DOCUMENT BY SUGGESTING THAT MAIN OBJECTIVE SHOULD BE TO EMPHASIZE RANGE OF COOPERATIVE ACTIONS OECD MEMBERS CAN TAKE. IN PARTICULAR, OECD OUGHT TO SHOW THE WORLD ITS DETERMINATION TO RESOLVE THE PROBLEM OF INFLATION. PRESENT DOCUMENT WOULD REQUIRE REVISIONS TO REFLECT XCSS DISCUSSIONS ON COMMODITIES AND ON CURRENT ACCOUNT STANDSTILL DECLARATION, (REF B), AND TO REFLECT CONCLUSIONS OF WORKING PARTY 3 MEETING IN TOKYO APRIL 18-19 (REF C). PARA 17 WOULD BE REVISED SUBSTANTIALLY SINCE MAIN CONCERN WAS NOT TO DEFINE PAYMENT AIMS, BUT RATHER TO EMPHASIZE NEED TO FOLLOW DOMESTIC AND EXCHANGE RATE POLICIES WHICH WOULD BE APPROPRIATE TO MAINTENANCE OF INTERNATIONAL BALANCE. PARA 19 WOULD ALSO BE REVISED TO GIVE ADDED EMPHASIS TO NEED FOR OFFICIAL CREDIT FACILITIES AS "SAFETY NET" UNDER INTERNATIONAL CAPITAL MARKETS. PARA 19(C) ON INTENDED BORROWING ACTIVITIES ON INTERNATIONAL CAPITAL MARKETS IS TO BE DELETED ENTIRELY IN VIEW OF WP3 CONCLUSIONS.

3. SEVERAL COUNTRIES FELT THAT DOCUMENT WAS TOO LONG AND TOO COMPREHENSIVE FOR CONSIDERATION BY MINISTERS. U.K., U.S. AND SWEDEN SUGGESTED SHORTER DOCUMENT FOCUSING ON TWO OR THREE CENTRAL ISSUES. OTHER COUNTRIES (GREECE, DENMARK, AUSTRIA) EMPHASIZED THAT EVEN THOUGH OTHER ORGANIZATIONS (GATT, IMF, C-20) HAD SOME OF THESE PROBLEMS UNDER CONSIDERATION, THIS DID NOT ALTER RESPONSIBILITY OF OECD MINISTERIAL COUNCIL TO ADDRESS BROAD RANGE OF INTERNATIONAL ECONOMIC PROBLEMS. THEY SAW OECD MINISTERIAL AS FORUM FOR FORMULATING GLOBAL AIMS, AS WELL AS MAKING SPECIFIC POLICY DECISIONS. SECRETARIAT RESPONDED TO REQUEST FOR SHORTER PAPER BY NOTING THAT THIS WOULD RISK OVER-SIMPLIFICATION OF MAJOR POINTS AND MIGHT RESULT IN MORE CONTESTABLE DOCUMENT.

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4. FOCUS OF PAPER: IN VIEW OF SHORT PERIOD BETWEEN XCSS AND COUNCIL DELIBERATIONS, THERE WAS RELATIVELY LITTLE DISCUSSION OF CURRENT ACCOUNT STANDSTILL, ALTHOUGH IT WAS UNDERSTOOD THAT THIS WOULD BE CENTRAL ISSUE UNDER THIS AGENDA ITEM. DRAWING ON REF A, U.S. REP EMPHASIZED NEED TO FOCUS ON SEVERAL KEY ISSUES INCLUDING INFLATION AND THE MAINTENANCE OF LIBERAL POLICIES IN FIELDS OF TRADE, INVISIBLES (CURRENT ACCOUNT STAND-

STILL) AND INVESTMENT. GERMANY AND SWITZERLAND ALSO CONSIDERED THESE ISSUES TO BE OF PRIMARY CONCERN, WHILE NETHERLANDS AND SWEDISH REPS THOUGHT EQUAL ATTENTION SHOULD BE GIVEN TO GROWTH AND EMPLOYMENT PROBLEMS. GERMAN REP ALSO EXPRESSED VIEW THAT PAPER GAVE TOO MUCH EMPHASIS TO GOVERNMENT INTERVENTION AS PRIMARY MEANS OF ACHIEVING INTERNAL AND EXTERNAL BALANCE, AND TOO LITTLE ATTENTION TO IMPORTANT ROLE OF MARKET FORCES.

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5. PRICE STABILIZATION MEASURES: GERMANY OBJECTED STRONGLY TO SECRETARIAT PROPOSALS FOR CONTROLLING INFLATION BY MEANS OF PRICE CONTROLS AND SUBSIDIES. U.S. ALSO DOUBTED EFFICACY OF SPECIFIC MEASURES SUGGESTED BY SECRETARIAT, AND SUGGESTED MORE ATTENTION MIGHT BE GIVEN TO ELIMINATION OF SUPPLY PROBLEMS. U.K., GERMANY AND SWEDEN EXPRESSED SERIOUS DOUBTS THAT ANY SPECIFIC MEASURES WOULD LEAD TO QUICK BREAKTHROUGH ON PRICES (SEE

PARA 20, REFD0C). SECRETARIAT RESPONDED THAT THESE SUGGESTIONS WERE NOT INTENDED AS RECOMMENDATIONS FOR MINISTERS TO ENDORSE, BUT RATHER AS FOCAL POINT FOR CONSIDERING WHETHER COUNTRIES COULD RELY ON ORTHODOX DEMAND MANAGEMENT POLICIES TO CONTROL DOUBLE-FIGURE INFLATION OR WHETHER IT WAS NOW TIME TO CONSIDER LESS CONVENTIONAL POLICIES.

6. COMMODITIES: HEADS DEL GENERALLY AGREED THAT SECTION OF DOCUMENT DEALING WITH COMMODITIES SHOULD BE RELIMITED OFFICIAL USE

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WAS TO REFLECT DISCUSSION THIS SUBJECT IN XCSS AND UNGA.

7. GROWTH AND EMPLOYMENT: U.S. CONSIDERED TONE OF DOCUMENT SOMEWHAT MORE PESSIMISTIC WITH REGARD TO DEMAND LEVELS AND EMPLOYMENT THAN WAS GENERALLY THE CASE FOR MAJORITY OF COUNTRIES. ALTHOUGH IMPACT OF OIL PRICES ON ECONOMIC ACTIVITY SHOULD NOT BE UNDERESTIMATED, IT SEEMED LESS SERIOUS NOW THAN HAD BEEN EXPECTED EARLIER, PARTLY BECAUSE OF INDIVIDUAL AND COOPERATIVE EFFORTS IN OECD AND ELSEWHERE. GERMANY AND SWITZERLAND AGREED IT WOULD BE PREMATURE AND INOPPORTUNE TO TAKE EXPANSIONARY MEASURES AT THIS JUNCTURE.

8. TRADE AND PAYMENTS: ITALY FOLLOWED UP ITS XCSS INTERVENTION BY NOTING IMBALANCE BETWEEN SPECIFIC NATURE OF COMMITMENTS IN PROPOSED CURRENT ACCOUNT STANDSTILL AND LACK OF ASSURANCE THAT COUNTRIES IN GREATEST NEED WOULD BE ABLE TO OBTAIN FINANCING FOR THEIR DEFICITS ON INTERNATIONAL CAPITAL MARKETS. DENMARK, TURKEY AND GREECE SUPPORTED ITALIAN VIEW. CANADIAN DEL, RECALLING HIS INTERVENTION AT XCSS (REF B, PARA L0), STATED THAT INCLUSION OF EXPORT RESTRICTIONS IN CURRENT ACCOUNT STANDSTILL WOULD CAUSE DIFFICULT - POSSIBLY INSUPERABLE - PROBLEMS FOR GOC. SEVERAL COUNTRIES (U.K., CANADA, FRANCE) THOUGHT THAT PARA 18 OF REFD0C DEALING WITH STANDSTILL DECLARATION MIGHT BE DELETED AND MADE INTO SEPARATE DOCUMENT.

9. SECRETARIAT WILL REDRAFT DOCUMENT FOLLOWING COUNCIL DISCUSSION OF SUBJECT MAY 14.
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